

# INSTRUCTIONS FOR SCHEDULE 42

## SUPPLEMENTAL SCHEDULE FOR MULTISTATE/MULTINATIONAL BUSINESS

Part I of this schedule provides the computation of the Idaho apportionment factor and is to be used by taxpayers who have income from business activity which is taxable in Idaho and another state or country.

Part II of this schedule provides the worldwide and water's edge adjustments to compute combined income. Part II must be used by a corporation which has ownership in at least one foreign affiliate.

### PART I APPORTIONMENT FORMULA

#### GENERAL INFORMATION

If the taxpayer transacts business in Idaho and another state or country, attach a schedule showing apportionment detail by company.

#### Corporations

When a unitary group files using the combined reporting method, each corporation included in the combined group must compute its own apportionment factors. It does this by including its total Idaho property, sales, or payroll in the numerators and using the property, sales, or payroll of all the corporations included in the combined report in the denominators. Schedule 42 is used to show the total for the unitary group. A schedule must be attached detailing the Idaho apportionment factor computation for each corporation in the group.

**Worldwide Filers.** For multinational unitary groups using the worldwide filing method, the denominators include the total property, sales, and payroll of all domestic and foreign corporations included in the unitary group.

**Water's Edge Filers.** For multinational unitary groups using the water's edge filing method, the denominators include only the total property, sales, and payroll of the water's edge combined group. This would exclude the property, sales, and payroll of foreign subsidiaries whose income is not included in the computation of apportionable income. To the extent the dividends are included in apportionable income, they are included in the sales factor denominator.

All intercompany amounts should be excluded from the computation of the apportionment factors.

#### Property Factor

The property factor is a fraction. The numerator is the average value of real and tangible personal property owned or rented and used in Idaho during the tax year to produce business income. The denominator is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax year to produce business income. Property used in the production of nonbusiness income is excluded from the factor.

Property is included in the factor if it is actually used or capable of being used during the tax year in the regular course of the trade or business of the taxpayer. Property under construction is excluded.

Property owned by the taxpayer is valued at its original cost. Original cost is the basis of the property for federal income tax purposes (prior to any federal adjustments) when it was acquired by the corporation and adjusted for subsequent capital additions or improvements, special deductions or partial disposition because of sale, exchange, abandonment, etc. Depreciation does not reduce original cost.

The average value of property owned by the taxpayer is computed by averaging the values at the beginning and ending of the tax year. The Idaho State Tax Commission may require or

allow the averaging of monthly values to properly reflect the average values.

Property rented is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total rents paid for the property, less the aggregate annual subrental rates paid by subtenants. Subrents are not deducted when the subrents are business income.

#### Sales Factor

The sales factor is double weighted for all taxpayers except electrical and telephone utilities. Electrical and telephone utilities use a single-weighted sales factor.

The sales factor is a fraction. The numerator is the gross receipts derived during the year from transactions and activities attributable to Idaho in the regular course of the taxpayer's trade or business. The denominator is the total gross receipts derived during the tax year from transactions and activities everywhere in the regular course of the corporation's trade or business. Receipts derived from the production of nonbusiness income are excluded from the sales factor.

Sales means all gross receipts derived from transactions and activity in the regular course of trade or business. Gross receipts means gross sales, less returns and allowances. Gross receipts from sales of tangible personal property are assigned to Idaho if:

- property is delivered or shipped to a purchaser in Idaho regardless of F.O.B. point or other conditions of sales; or
- property is shipped from an office, store, warehouse, factory, or other place of storage in Idaho and the taxpayer is not taxable in the state of the purchaser (throwback sales) or the purchaser is the United States Government.

Sales also include gross receipts from services and all other gross receipts such as interest, dividends, rents, royalties, gross receipts from the sale of property, and other income derived by the taxpayer in the regular course of business. If gross receipts do not fairly represent the extent of your business activity in Idaho, you may petition, or may be required, to use another method to obtain an equitable result. Income from services is attributable to this state to the extent that the services are performed in Idaho.

#### Payroll Factor

The payroll factor is a fraction. The numerator is the compensation paid in Idaho during the tax year to produce business income. The denominator is the total compensation paid during the tax year to produce business income. Compensation connected with the production of nonbusiness income is excluded from the payroll factor.

The total amount paid to employees is determined on the basis of the taxpayer's accounting method. Under the accrual method, all compensation properly accrued is deemed to have been paid.

If the taxpayer is required to report the compensation under the cash method for unemployment compensation purposes, compensation paid to employees may be included in the payroll factor using the cash method.

Compensation means wages, salaries, commissions and any other form of payment to employees for personal services. Payments made to an independent contractor, or any other person not properly classifiable as an employee, are excluded.

Compensation is paid in Idaho if any one of the following tests are met:

- the individual's service is performed entirely within Idaho; or
- the individual's service is performed both in and outside Idaho

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but the service performed outside Idaho is incidental to the individual's service in Idaho; or

- some of the service is performed in Idaho and the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in Idaho; or
- some of the service is performed in Idaho and the base of operations, or the place from which the service is directed or controlled, is not in any state in which some part of the service is performed, but the individual's residence is in Idaho.

### MODIFIED FACTORS FOR CERTAIN INDUSTRIES

The following industries use special rules to compute the apportionment factors. Examples of the computation of apportionment factors are found in the applicable Idaho Administrative Income Tax Rules.

#### Airlines

If you are in the business of transporting passengers, freight or mail by air, your apportionment factor should reflect the movement of your transportation equipment and personnel. This is done by including transportation revenue, property ready for flight, and transportation payroll in the Idaho numerators based on the percentage of Idaho departures of aircraft weighted as to the value of aircraft by type to the total departures similarly weighted.

The value of nonflight property and nonflight payroll will be allocated to the state based on the general apportionment rules.

#### Carriers of Freight and Passengers

If you are in the business of transporting passengers, freight, or mail by motor carrier or rail, your apportionment factor should reflect the movement of your transportation equipment and personnel. This is done by including the transportation revenue, property and payroll in the Idaho numerators based on the percentage of miles traveled in Idaho to miles traveled everywhere.

Other revenue, fixed property, and compensation of employees assigned to fixed locations are included in the factors based on the general apportionment rules. Per diem and mileage charges paid or received for the temporary use of railroad cars should not be included in the sales or property factors.

#### Contractors

You must use the same long-term contract accounting method for Idaho reporting purposes that you used for federal reporting purposes.

If the percentage of completion method is used, the following special rules apply in addition to the general property, payroll, and sales factor rules.

The property factor denominator includes the average value of the taxpayer's cost of construction in progress (including materials and labor) to the extent the costs exceed progress billings. The portion of this amount attributable to construction projects in Idaho is included in the Idaho numerator. If progress billings exceed construction costs, do not include any value in the property factors for the taxpayer's equity in the project.

The sales factor includes only the portion of the gross contract price which corresponds to the percentage of the entire contract which was completed at the end of the tax year. For example, if the project was 30% complete at the end of the tax year, 30% of the bid price should be included in the gross receipts. Gross receipts from a construction project are attributable to Idaho if the construction is located in Idaho. Gross receipts from a construction project located partially in Idaho are included in the numerator based on ratio of construction costs for the project in Idaho for the tax year to the total of construction costs for that project for the tax year.

Compensation paid for work on a particular construction project is included in the payroll factor even though capitalized into the cost of construction. Compensation is attributable to the state where most of the employee's service is performed, regardless

of where reported for unemployment tax purposes.

#### Publishers

If you are in the business of publishing, selling, licensing or distributing books, newspapers, magazines, periodicals, trade journals or other printed material, include outer-jurisdictional property in the property factor whether owned or rented if used in your business. Outer-jurisdictional property includes such items as orbiting satellites and undersea transmission cables which are not physically located in any particular state. The portion of outer-jurisdictional property attributable to Idaho is computed based on the ratio of Idaho usage to usage everywhere.

The sales numerator includes gross receipts from the sale of printed materials delivered or shipped to a purchaser or subscriber in Idaho. Gross receipts from the advertising and the sale, rental or other use of customer lists are included as Idaho sales as determined by a circulation factor.

If the purchaser or subscriber is the U.S. Government or you are not taxable in the state, the gross receipts are attributable to Idaho if the printed material or other property is shipped from a business location in Idaho.

#### Broadcasters

If you are in the business of conducting television or radio broadcasts, either through a network or through an affiliated, unaffiliated or independent television or radio broadcasting station, your apportionment factor should exclude outer-jurisdictional, film and radio programming property. Outer-jurisdictional property includes orbiting satellites and undersea transmission cables which are not physically located in any particular state. Film programming means performances, events, or productions telecast, live or otherwise, on television and includes news, sporting events, in the format of a motion picture, a video tape, or other medium. Radio programming means all performances, events or productions broadcast live or otherwise on radio including commercial, education or artistic works, in the format of an audio tape, disc or other medium.

Audio or video cassettes, discs or similar medium containing film or radio programming which is intended for sale or rental for home viewing or listening is included in the property factor at original cost.

The value of property located or used in Idaho for part of the taxable year is included in the Idaho property numerator based on the ratio that the number of days the property is located or used in Idaho bears to the total number of days you owned or rented the property during the tax year.

Idaho sales include advertising revenue from live television, film or radio programming in release to or by television and radio stations located in Idaho and receipts from live telecasts, films and radio programs based on the audience factor.

The payroll factor includes residual and profit participation payments paid to employees, directors, actors, newscasters and other individuals in a role of employee. Amounts paid to an individual, corporation or other business entity for providing the services of directors, actors, newscasters and other talent for a live television broadcast, film or radio program are included if such payments were at least 25% of total compensation paid to employees, and that failure to include the amounts would not fairly represent the extent of your business activity in Idaho. The portion of these amounts attributable to Idaho is determined according to the general apportionment rules.

## SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the form. Compute all percentages to four decimal places (00.0000%).

#### Property

Lines 1 through 4. Enter the beginning and end of the year total and Idaho property amounts.

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Line 9. Divide Idaho property by total property (amounts on line 8).

## Sales

Lines 11 and 12. Enter the amounts from line 10 that were delivered or shipped to Idaho purchasers (line 11) or that were throwback sales to Idaho (line 12).

Line 14. Attach a detailed schedule.

Line 16. Divide Idaho gross receipts by total gross receipts (amounts on line 15).

Electrical and telephone utilities. This is your single-weighted sales factor. Go to line 18.

Line 17. For all taxpayers other than electrical and telephone utilities, multiply the amount on line 16 by 2. This is your double-weighted sales factor.

## Payroll

Line 19. Divide Idaho wages and salaries by total wages and salaries (amounts on line 18).

## Total Percent

Line 20. For all taxpayers other than electrical and telephone utilities, add the percentages on lines 9, 17, and 19. For electrical and telephone utilities, add the percentages on lines 9, 16, and 19.

## Idaho Apportionment Factor

Line 21. For all taxpayers other than electrical and telephone utilities, divide the total percentages on line 20 by 4. For electrical and telephone utilities, divide the total percentages on line 20 by 3. If any of the factors do not apply to your business, divide the total on line 20 by the number of factors used.

## PART II. MULTINATIONAL ADJUSTMENTS GENERAL INFORMATION

The worldwide filing method is required for all corporations unless the water's edge election has been made. The water's edge election must be made by filing Form 14, Water's Edge Election and Consent Form, with the original tax return filed by the corporation for the tax year. The election cannot be made on an amended return. Permission must be requested from the Idaho State Tax Commission to change from the water's edge method to the worldwide method.

## SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the schedule.

To the extent that amounts listed for water's edge filers are different than the amounts listed for worldwide filers, separate instructions are listed.

## ADDITIONS

### Line 1 TAXABLE INCOME FROM UNITARY FOREIGN SUBSIDIARIES

Water's Edge Filers. If you are a water's edge filer, disregard this line and go to line 2.

Worldwide Filers. The income of a foreign affiliate included in a consolidated federal return is included on line 12, Form 41.

If foreign affiliates are not included in a consolidated federal return, the corporation can select one of the following options. The option selected must be used for all foreign affiliates not included in a consolidated federal return and must be adjusted for the Idaho additions and subtractions listed on Form 41.

**Option 1** Enter the net income before income taxes stated on each affiliate's profit and loss statement prepared for the United

States Securities and Exchange Commission (SEC). If the profit and loss statement is not filed with the SEC, enter the net income or loss before income taxes reported on the profit and loss statement prepared for reporting to shareholders that is subject to review by an independent auditor.

**Option 2** The net income or loss reported on the profit and loss statements may be adjusted to tax accounting standards as would be required by the Internal Revenue Code if the corporation were incorporated in the United States. If a corporation chooses to make the book to tax adjustments, all book to tax adjustments must be made for all unitary foreign corporations not included in the consolidated federal return. The book to tax adjustments must be consistently applied each year the group files a worldwide return.

Attach a schedule detailing the book to tax adjustments by company.

### Line 2 FEDERAL TAXABLE INCOME OF NONCONSOLIDATED UNITARY SUBSIDIARIES

Enter the federal taxable income of unitary subsidiaries incorporated in the United States that are more than 50% commonly owned and that were not included in the federal consolidated return. This is the amount reported on the subsidiary's federal income tax return, Form 1120, adjusted for the Idaho additions and subtractions listed on Form 41. Attach a schedule identifying this income by company.

### Line 3 FOREIGN SALES CORPORATIONS

Water's Edge Filers. Enter the federal taxable income of a Foreign Sales Corporation (FSC) from federal Form 1120-FSC. This is the federal amount computed after applying Internal Revenue Code, Section 921, Exempt Foreign Trade Income Excluded From Gross Income.

Worldwide Filers. Enter the income of FSCs computed using Option 1 or Option 2 listed under the instructions for line 1. Do not include income previously reported on line 1.

### Line 4 INCOME OF FOREIGN CORPORATIONS SUBJECT TO FEDERAL TAXATION

Water's Edge Filers. Enter the federal taxable income reported by corporations incorporated outside the United States that are required to file a federal income tax return. This includes foreign corporations filing a federal Form 1120F.

Worldwide Filers. Enter the income of foreign corporations subject to federal taxation computed using Option 1 or Option 2 listed under the instructions for line 1. Do not include income previously reported on line 1.

### Line 5 IRC SECTION 936 POSSESSION CORPORATIONS

Enter the federal taxable income of corporations filing under Internal Revenue Code Section 936, Puerto Rico And Possession Tax Credit. For water's edge filers, this amount is considered a deemed dividend subject to an 85% exclusion that will be computed under "Subtractions".

### Line 6 INTERCOMPANY ELIMINATIONS

Enter the amount of intercompany transactions between members of the combined group and nonunitary subsidiaries eliminated on the federal consolidated return. The income of the nonunitary subsidiaries is a subtraction on line 9. Attach a schedule identifying the intercompany transactions by corporation.

### Line 7 OTHER ADDITIONS

Enter any miscellaneous Idaho additions. Attach a schedule identifying each miscellaneous addition by corporation.

## SUBTRACTIONS

### Line 9 FEDERAL TAXABLE INCOME OF NONUNITARY SUBSIDIARIES INCLUDED ON THE FEDERAL RETURN

Enter the federal taxable income of nonunitary subsidiaries included in the federal consolidated return. Attach a schedule

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identifying the income or loss by corporation.

### Line 10 DIVIDEND EXCLUSION

The following dividend exclusions are applicable only to water's edge filers.

- a. Foreign Dividends. Enter the total amount of dividends paid by foreign affiliates. Include the amounts of income from controlled foreign corporations under subpart F if included in federal taxable income. Enter the portion of FSC dividends that are not included on line 11.
- b. Deemed Dividends From Possession Corporations. Enter the amount from line 5, Part II. Do not include any actual dividends paid by possession corporations on this line.
- d. Exclusion Percentage. If you elected to forego filing the water's edge spreadsheets as indicated on line 10b, Form 41, enter 80%. Enter 85% if you attached the water's edge spreadsheets.

### Line 11 INTERCOMPANY DIVIDENDS INCLUDED ON THE COMBINED RETURN

Water's Edge Filers. Enter the total of the following amounts:

- the dividend income, included in federal taxable income, received by a member of the water's edge combined group from another member of the water's edge combined group;

- the dividend income, included in federal taxable income, received by a member of the water's edge combined group from a possession corporation; and
- the intercompany dividends paid by a FSC to another member of the water's edge combined group. The amount of dividends determined to be intercompany is the same proportion of the dividend paid as the proportion that FSC federal taxable income for the year out of which the dividend was paid bears to the total FSC income before taxes for that year.

Worldwide Filers. Enter the amount of any dividends paid by a member of the unitary group to another member of the unitary group that have not been subtracted elsewhere on this schedule or Form 41.

Attach a schedule identifying payors, payees and dividend amounts regardless of the filing method.

### Line 12 INTERCOMPANY TRANSACTIONS INCLUDED ON THE FEDERAL RETURN

Enter the intercompany transactions, between members of the combined group, that have not otherwise been eliminated.

### Line 13 OTHER SUBTRACTIONS

Enter any miscellaneous Idaho deductions. Attach a schedule identifying each miscellaneous deduction by corporation.